



The Aging-and-Retiring Government Workforce

How Serious Is the Challenge? What Are Jurisdictions Doing About It?

A RESEARCH STUDY

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Sponsored by CPS Human Resource Services

In partnership with the International Personnel Management Association, the Council of State Governments, and the National Association of State Personnel Executives

National Partner for the Cross-Industry Study: The Business Forum on Aging



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If you are interested in obtaining the full version of the research, visit our website at www.cps.ca.gov and download the full version of the Aging-and-retiring Government Workforce research.

Executive Summary

America is rapidly approaching a crisis in its workforce, triggered by the convergence of two demographic trends: the growing number of aging Baby Boomers in the population and the much smaller number of younger people who follow behind them.

These changes will play out in the workforce. The proportion of older workers is expected to shoot up an average of 4% *per year* between 2000 and 2015. The proportion of younger workers is shrinking.

Some sectors are experiencing the impacts of these trends much sooner than others. Government is among those at the leading edge. Given that it often looks to the private sector for innovations, it's ironic that, in this instance, government is in the vanguard. No sector is feeling the issue's impacts more forcefully or sooner than government is now.

PURPOSE OF THIS STUDY

This research was designed as an exploratory study to investigate two questions:

1. What is the scope of the aging workforce and approaching retirement wave within the government sector?
2. What innovative solutions have jurisdictions implemented to address those challenges and with what impacts?

Directed by Dr. Mary Young, the study was conducted by the Center for Organizational Research, a division of Linkage, Inc. It was sponsored by CPS Human Resource Services. Three associations served as partners: the International Personnel Management Association (IPMA), the Council of State Governments (CSG), and the National Association of State Personnel Executives (NASPE). Our National Partner for the cross-industry study was the Business Forum on Aging.

SUMMARY OF THE RESULTS

Question 1: What is the scope of the aging workforce and approaching retirement wave within the government sector?

Research Findings Part I compiles data and analyses on the age distribution of the workforce, retirement eligibility, and retirement forecasts at various levels of government. We conclude that:

1. Looking across all levels of government as of 2001, the government-sector workforce is older than its private-sector counterpart. It also has proportionately fewer young workers, a fact that increases the seriousness of the workforce challenges ahead.
2. A significant percentage of employees at all levels of government are approaching retirement eligibility.
3. Accurate forecasts of when employees will *actually* retire are more difficult to make, since those decisions are affected by environmental, organizational, occupational and individual-level factors.

4. A second factor affecting the accuracy of retirement forecasts is the quality of data available and the analysts' tools and skills, which the study found varied significantly across jurisdictions.
5. To fully answer Question 1, it is necessary to consider both the workforce numbers (future supply vs. future demand) and also what the jurisdiction is doing to close the gap between the two. Some jurisdictions facing significant retirements in the near future have a well-developed strategy for meeting future workforce needs. While fewer retirements may be forecasted in other jurisdictions, they could pose a more serious challenge if little is being done to address them. We conclude that workforce statistics, alone, do not answer the question fully.

Question 2: What innovative solutions have jurisdictions implemented to address those challenges and with what impacts?

Guided initially by recommendations from our sponsor, partner associations and other sources, we conducted scores of interviews to identify jurisdictions actively addressing the challenges of an aging-and-retiring workforce. Ultimately, we selected twelve jurisdictions to profile in Research Findings Part II. They represent different levels of government and a variety of approaches to meeting the challenges.

Federal government:

- Tennessee Valley Authority
- Air Force Materiel Command
- Army
- General Accounting Office

State government:

- Maine
- Minnesota Department of Transportation
- Pennsylvania
- Washington

Local government:

- 30 California counties
- Henrico County, Virginia
- City of Anaheim, California
- City of Phoenix, Arizona

THE STUDY'S CONCLUSIONS

Based on the data we collected in answer to both research questions, we offer the following observations and conclusions, which are elaborated on in “Analysis of the Government-Sector Findings”:

1. Multiple factors have made government one of the first sectors to bear the brunt of an aging national workforce:
 - Past employment patterns (periods of growth and downsizing, hiring freezes, early retirement incentives or buy-outs)
 - The declining appeal of public service
 - Competition with the private sector for talent
 - Lower retirement-eligibility criteria than most other sectors offer
 - Regulations that hamper jurisdictions from retaining older employees or rehiring retirees
 - Cut-backs in training that have depleted the talent pipeline
2. Things could be even worse, however. The human capital crisis in government is being tempered by a few significant countervailing forces:
 - The economic downturn has increased the potential candidate pool for government-sector job openings and made the comparative security of government employment more appealing.
 - Public service careers may have new cachet after September 11th.
 - Retirement-eligible employees may choose to continue working because of the declining value of their retirement investments and/or the rising cost of retiree health benefits.
3. Greater aging workforce challenges do not necessarily require bigger organizational responses. In fact, identifying the most strategic trouble spots and then *selectively* addressing them appears to be more effective—and certainly more doable—than increasing the scope of the organization’s response in proportion to its aging workforce challenges.
4. Data rule. Securing accurate data is the essential, first step in addressing the challenges of an aging and soon-to-retire workforce. With such information, a jurisdiction can:
 - Plan effectively
 - Identify areas needing immediate attention
 - Persuade senior executives and policy-makers
 - Mobilize individual stakeholders to take action

5. The challenges of an aging-and-retiring workforce are new, but the tactics for dealing with them are familiar and, in many cases, already in place. However, what *is* new:
 - The driving force for adopting or intensifying these tactics
 - The sense of urgency
 - The need to adapt some familiar tactics to a different demographic profile or new employees populations
6. Workforce planning isn't rocket science. But its execution is what separates best practice from hit-or-miss approaches. Among the variations in workforce planning that the study identified:
 - Centralized vs. decentralized vs. hybrid approach
 - Elective vs. mandated process
 - Occasional or one-time process vs. ongoing and institutionalized one, and the frequency with which analyses are updated and refined
 - Dynamic vs. static model
7. Keep it simple. If you want line managers to do regular workforce planning, you've got to make it uncomplicated for them and integrate it with other processes, such as strategic planning or the budget process.
8. To close the gap between future workforce supply-and-demand, jurisdictions need a coordinated action plan that may include all phases of the employee life cycle. The jurisdictions in our study that have committed themselves fully to addressing the challenges of an aging-and-retiring workforce employ a comprehensive human resource strategy that includes:
 - Recruitment and selection
 - Performance management
 - Compensation and benefits
 - Training and development
 - Leadership development (including succession management, coaching and mentoring)
 - Career management
 - Retention
 - Retirement
9. Many jurisdictions currently feel pulled in two directions: Their workforce-planning process shows them there are serious challenges ahead due to an aging workforce and retirements, but their budgets are severely cut. There's pressure to choose a short-term fix, such as early retirements, layoffs, and reduced training.

10. Some structures—such as retirement eligibility criteria and policies governing phased retirement and rehiring retirees—may need to be changed to address the challenges of an aging-and-retiring workforce.
11. A current controversy should be resolved: Can an employer ask employees when they expect they will retire? We found opposing views on the question and one jurisdiction (Tennessee Valley Authority) that comes right out and *asks* older employees to tell them—voluntarily—when they anticipate they will retire. Those answers are more reliable, the TVA has found, than statistical forecasts based on past history.
12. Employees can be allies in preparing the organization to meet future human capital needs. In fact, they may be relieved that the jurisdiction is concerned about what will happen when they leave and eager to help with the transition.
13. Forewarned is forearmed. And forearmed is *confident*. One of the most striking benefits of thorough, ongoing workforce planning is the level of calm it provides— even in jurisdictions facing significant numbers of retirements.

THE SPONSORS' COMMENTS ON THE FINDINGS:

The commentary by CPS Human Resource Services elaborates on the following observations regarding the study's findings:

1. Even in the face of fiscal constraints, there is much that public sector leaders can do to manage the current human capital challenges while preparing their organization for the coming wave of retirements.
2. Some jurisdictions have developed and refined their approach to workforce planning to a very high level of sophistication.
3. It's not *just* about the numbers; it's about the shape of the workforce.
4. To meet the challenges of an aging workforce—or, for that matter, any other human resource challenge—an integrated approach to workforce planning is more effective than any individual tactic described in this report.
5. The most successful approaches to workforce planning engage managers at all levels of the organization, and are not just driven by HR.
6. The public sector has contributed to the problems it now faces by offering employees retirement eligibility much earlier than do private sector employers.
7. Public-sector employers are successfully adopting private-sector human resource practices.
8. We need to challenge the assumption that our employees' retirement intentions are a don't-ask-don't-tell issue.
9. Careers in government have much to offer. Jurisdictions must aggressively communicate those benefits to potential applicants and leverage them to retain their best employees.
10. The HR leader's role is changing as the need for strategic workforce planning increases.

Finally, Research Findings Part III offers frameworks, tools, and processes that jurisdictions can use to address the new set of challenges raised by an aging workforce.

The last section of the report is a Center for Organizational Research white paper written at the outset of our research: *Holding On: How the Mass Exodus of Retiring Baby Boomers Could Deplete the Workforce, What Some Employers Are Doing to Stem the Tide*. It synthesizes material drawn from many published sources, concluding that the aging-and-retiring workforce will be increasingly important in the future—becoming, in Peter Drucker’s words, “the dominant factor in the next society.”



About This Research

HOW WE GOT STARTED

“Why this topic?” people have asked repeatedly over the past nine months. Repeatedly, here is our answer:

The Center for Organizational Research isn’t just an independent research group. We also serve a membership group called the Linkage Learning Network (<http://www.cfor.org/services/lln.asp>). Organizations and individuals who join LLN participate in monthly teleconferences with thought-leaders, attend quarterly forums, get our help in doing issues-focused networking with other members, and receive white papers based on CFOR research.

Whenever an organization joins LLN, we interview them to learn about their needs. Invariably, one of our first questions is “What are your top HR challenges?”

That question led to this research. In the fall of 2002, when a large, independently owned utility joined LLN, we asked our company contact person—an executive who oversees leadership development—the HR-challenges question. His immediate answer: “The age bubble.”

Huh? we thought. Say that again?

Then he described the enormous challenge his utility was facing: When it looked across its senior management team, nearly all were over 50. That meant they were already eligible for early retirement, provided they had at least 10 years at the company. The next level down was only slightly younger. And below that were other managers who’d been hired at about the same time as the top executives. About half that group was also over 50. Once the utility realized it had level-upon-level of leaders who were close to retirement, it began doing everything it could to come up with a replacement pool. But to do so, it needed to reach much deeper into the organization than ever before to identify potential candidates. Then it had to accelerate their development and quickly winnow the best prospects from the rest.

The next time we talked to a utility company, we brought up the “age bubble” in our conversation. Did they have any concerns about the age of their workforce or a coming wave of retirements? They said they did, adding that it’s an *industry-wide* phenomenon.

Who else was feeling these pressures? And exactly how serious were the challenges to employers? Those questions led us to do an in-depth investigation of published information, including Bureau of Labor Statistics analyses, think-tank reports, and other documents. The result was our first white paper on the HR challenges of the aging US workforce, which is included in this report.

From that background research, we learned several important things

- ♦ The aging workforce and approaching retirement wave are not yet an across-the-board phenomenon, although they will be within the next decade. Today, these trends are affecting some sectors much sooner than others. At the leading edge are government, education, manufacturing, healthcare, transportation, and utilities.
- ♦ Since the combination of an aging workforce and a dramatic surge in retirements is a new phenomenon—literally *without precedent* in employment history—there is little research on organizational responses to this phenomenon and their impacts. To date, research on the human resource challenges posed by an aging and soon-to-retire workforce have focused on:
 - Older workers’ views of retirement and their retirement patterns
 - HR professionals’ views of older workers
 - Employers’ practices and policies regarding older workers, such as retaining older workers, phased retirement and rehiring retirees
- ♦ Even in sectors where the aging-and-retiring workforce is a widespread problem, the issue is new enough that industry-level responses are limited. Rather, industry associations often point to a few early innovators, but most employers are just beginning to deal with these issues.

Having learned as much as we could through second-hand research, we homed in on the questions we wanted to investigate first hand:

1. What is the scope of the aging workforce and approaching retirement wave? Informally, we call this the “How bad is it?” question.
2. What innovative solutions have employers implemented to address those challenges and with what impacts? That’s the “What are employers doing about it?” question.

We chose to pursue these questions in three sectors: government, utilities, and healthcare. The report that follows is based on the first of these sector studies.

THE RESEARCH DESIGN

To investigate the first question—the scope of the aging government workforce and retirement issue—we again sought out previously published reports and analyses. These were available for some levels of government but not for all.

- ♦ At the federal level: The Office of Management and Budget now requires that federal agencies conduct workforce analysis and planning as part of the annual budget process. The Office of Personnel Management provides extensive data, tools, and case studies on a special workforce planning website.
- ♦ At the state level: Two of our partner associations, the Council of State Governments and the National Association of State Personnel Executives, had just completed a national survey on the state worker shortage. It included questions about the average age of state workers and the percentage who would be eligible for retirement within the next five years.
- ♦ At the local level: Data at this level are extremely limited, although at least one survey is planned for 2003 to collect workforce data for county governments.

To answer the second research question—innovative solutions employers have implemented to address the challenges of an aging-and-retiring, and their results—we turned to our research sponsor, partners, other associations and topical experts (see below) for initial recommendations. We paid attention when a jurisdiction was suggested. But we also looked for examples that hadn't already been published elsewhere, to avoid retelling already familiar stories.

Sometimes we interviewed a jurisdiction but decided not to include it in the report. In some cases, that was because they were using a fairly typical workforce planning process—end of story—or had just gotten started. In other cases, we learned their workforce planning efforts had been put on hold due to more pressing issues such as budget cuts, hiring freezes or a change in administration. In one case, the state's workforce planning expert had, himself, taken an early-out retirement offer, a sudden decision that left no immediate successor.

In the end, we chose twelve jurisdictions that represent different levels of government and a variety of approaches to meeting the challenges of an aging-and-retiring workforce. Each jurisdiction, we feel, has interesting insights to offer. Together, they present a broad range of tactics, many common themes, and a few significant differences.

Because the aging-and-retiring workforce is a new topic, this research is intended to be exploratory—to investigate the dimensions of a new issue rather than to count frequencies (How many do X?) or test hypotheses. Quantitative studies may follow. But first it is important to find out what jurisdictions experience as they begin to deal with this new set of challenges on top of the more familiar ones they already have. That is the task we undertook, the results of which we report here.

OUR RESEARCH SPONSOR AND PARTNERS

Early in the life of this project, we were fortunate to secure an ideal research sponsor: CPS Human Resource Services (<http://www.cps.ca.gov>). As a self-supporting government agency that works with public-sector employers to develop and enhance personnel programs, CPS brings to the study deep knowledge of government-sector human capital issues. Our three primary CPS contacts, Bob Lavigna, Pam Stewart and Ed Cole, have, between them, eight decades of experience as public-sector managers, HR executives, and consultants. Throughout their careers, they have also served as leaders of various professional associations. In fact, Bob was elected president of the International Personnel Association several months after we'd begun this study. CPS's name, and those of Pam, Bob, and Ed, invariably opened doors for us as we began cold-calling across government, tracking down examples of jurisdictions that we might consider profiling in this report.

CPS also helped us secure three important partner associations: the International Personnel Management Association (IPMA), the Council of State Governments (CSG), and the National Association of State Personnel Executives (NASPE). Each association provided generous help by suggesting jurisdictions we should interview, personal contacts to call, and other subject-matter experts who could aid in our quest. Time and again, we received a much warmer reception than we might have otherwise—simply because we were calling at the suggestion of one of these associations. We are grateful for the personal commitment that our association contacts made to this research: Neil Reichenberg of IPMA; David Moss and Sarah Pitt of the Council of State Governments; and Leslie Scott of NASPE.

OTHER SOURCES OF HELP

Other individuals and associations also made important contributions to the government-sector study:

John Palguta of the Partnership for Public Service

Donna Gregory, Rhonda Diaz, and Ralph Nenni of the Office of Personnel Management

Lisa Fairhall of the Office of Management and Budget

Jennifer Shaw, Federation of Public Employees/AFT

Jonathan Walters, a journalist and knowledgeable source on human resource/human capital issues in government

Mollie Anderson and Barbara Kroon of the Iowa Department of Personnel

In addition, we acknowledge contributions that others have made to our larger, three-sector study of the HR challenges raised by the aging workforce:

Diane Piktialis of Ceridian Performance Partners and president of the Business Forum on Aging

Marian Stoltz-Loike of SeniorThinking.com

Anne Chamberlain

Anna Rappaport of Mercer Human Resources Consulting

Finally, the study's lead-researcher-*cum*-report-author acknowledges the important contributions made by her Linkage colleagues:

Linda Murray, Director of the Center for Organizational Research, and our colleagues Tom Fasolo and Allison Arneill, for believing in this topic long before anyone else did.

Rich Rosier, Vice President of Conferences for enabling us to complete the studies, despite an unexpected downturn in the research business.

Jim Laughlin and Lori Hart of Linkage's Product Development Group, for investing weekends and evenings to ensure this report was improved and completed, against formidable odds.

HOW THIS REPORT IS ORGANIZED

The report begins with an analysis of the study's overall findings. We discuss common themes, obstacles, critical success factors, and insights, based on demographic data and the scores of interviews we completed. While the study focuses on the government sector, we bring to our analysis a broader perspective: Having conducted similar research in healthcare and energy, we pay particular attention to ways in which government compares to other sectors dealing with many of the same challenges.

Our sponsors, CPS Human Resource Services, follow with their own commentary on the study. Their perspective is different from ours, given their deep knowledge of the public sector and the intricacies of merit systems, civil service regulations, and the like, and their broad exposure to the issues that public organizations face nationwide.

CPS's commentary is followed by the research findings, which are organized into three parts:

- ♦ Part I answers the first research question by analyzing the scope of the aging-and-retiring workforce issue at various levels of government.
- ♦ Part II profiles the specific approaches that selected jurisdictions have implemented. Because these are new challenges, and only recently recognized, we prefer not to call these approaches as “best practice.” That label still seems premature. Nevertheless, we chose these twelve jurisdictions after many months of investigation, confident that these examples rose to the top.
- ♦ Part III offers frameworks, tools, and processes that jurisdictions can use to address the new set of challenges raised by an aging workforce.

Finally, we've included our initial white paper, *Holding On: How the Mass Exodus of Retiring Baby Boomers Could Deplete the Workforce, What Some Employers Are Doing to Stem the Tide*. This report synthesizes previously published information and presents evidence that these issues will become increasingly important to employers in the future.

As always, we welcome comments on our research and this report. Please address them to the study's lead researcher, Dr. Mary Young (781-393-9691 or marybyoung@aol.com). To order a copy of this report or inquire about other Linkage research publications, contact Tom Fasolo (781-402-5545 or tfasolo@linkage-inc.com).



Final Analysis of the Government-Sector Findings

Based on our government-sector research on the human resource impacts of the aging workforce—How bad is it? And what are jurisdictions doing about it?—we offer the following observations. Grounded in the detailed profiles presented elsewhere in the report, this section identifies common themes and patterns across the jurisdictions, interesting differences, and a few surprises.

1. Multiple factors have made government one of the first sectors to bear the brunt of an aging national workforce.

The fact that the government sector is at the forefront of two related trends that will ultimately affect many other sectors—a disproportionate number of older workers and many imminent retirements—can be explained by several factors. In the twelve jurisdictions profiled in this report, many, if not all, of the following contributed to the current human capital crisis:

- Expanding the size of the workforce in the late 1960s and 1970s, in response to the mushrooming of government programs. This spate of hiring created a bulge that has subsequently moved closer and closer to the high end of the age continuum. The majority of employees approaching retirement age were hired during this period.
- Periods of downsizing, such as the late 1980s and early 1990s, when jurisdictions cut back on hiring or stopped it altogether—a move that reduced the ongoing infusion of younger employees in the workforce. Many jurisdictions have also had one or more reductions in force. Since seasoned employees are more likely than newer (i.e., younger) ones to keep their jobs, such reductions further skewed the overall age distribution toward the upper end of the range.
- To trim budgets, jurisdictions may have instituted early-retirement programs to encourage their most seasoned (and highly paid) employees to leave the workforce. Some organizations are doing so today. Depending on how this tactic is executed, it may exacerbate the “brain drain” problem if attention isn’t paid to the longer-term consequences, such as the knowledge and skills that are being lost. (However, early retirement incentives do not necessarily lead to future problems. In other cases described in the report, such as the Air Force Materiel Command and the GAO, early retirement has been offered on a selective basis with longer-term objectives: to rebalance the workforce’s age distribution and insure the right mix of skills and competencies for the future.)
- The declining appeal of public service is viewed as an important contributing factor, particularly among those concerned about the human capital crisis in federal government. According to the Partnership for Public Service, only one in ten recent Phi Beta Kappa graduates ranked the federal government as their first choice for an employer. Just one-third of recent Kennedy School of

Government graduates chose careers in public service, compared to 75% in 1980. The final report of the National Commission on the Public Service—released on January 7, 2003, as this report was going to press—recommends several measures to increase the attractiveness of government careers.

- Given the intensity of talent wars across all sectors, human resource practices and policies have handicapped jurisdictions competing with the private sector for qualified employees. For example, application processes that are cumbersome and slow, civil service and merit system regulations that limit the selection pool, arcane job classifications, rigid compensation rules, and limited promotional opportunities—these and other idiosyncrasies of government employment have put it at a competitive disadvantage.
- Retirement programs that, in many jurisdictions, allow employees to retire earlier than typical private-sector policies, accelerating the impacts of a retirement wave.
- Retirement policies that are too inflexible to permit phased retirement.
- Reductions in training and development budgets, which, over time, have resulted in an inadequate pipeline of younger workers to replace older ones as they retire, particularly in leadership positions.

These factors—at least some of which are present in every jurisdiction we interviewed—combine to create a somewhat unusual outcome: The public sector often sees itself, not unjustifiably, as slower-moving than the private sector, as less a trend-setter than a trend-follower in regard to human resource practices. Yet it is actually in the *vanguard* when it comes to having to deal with the challenges of an aging workforce. No sector is feeling the issue's impacts more forcefully or sooner than government is now. For many private-sector employers, it is barely on the screen.

Ironically, then, the government can't look to the private sector for "best practices." Instead, organizations that *are* grappling with the challenges raised by an aging workforce can learn from each other. This report is designed to serve that purpose. In the future, we expect that employers in other industries will look to the three sectors we have studied—government, healthcare and utilities—for lessons learned.

2. Things could be even worse. As of today, the human capital crisis in government is being tempered by a few countervailing forces.

Our research identifies a number of factors that may delay or offset the challenges the government sector is facing:

- The economic downturn has had a positive effect on many aspects of human capital management, according to some jurisdictions we interviewed.
- Reduced private-sector hiring and the infusion of laid-off employees into the labor market has increased the potential candidate pool for government-sector job openings.
- Retirement-eligible employees may choose to continue working due to the current economy. For example, their personal savings for retirement (other than those provided as a defined benefit by their employer) may have declined in value or their spouse's retirement savings may have done so.

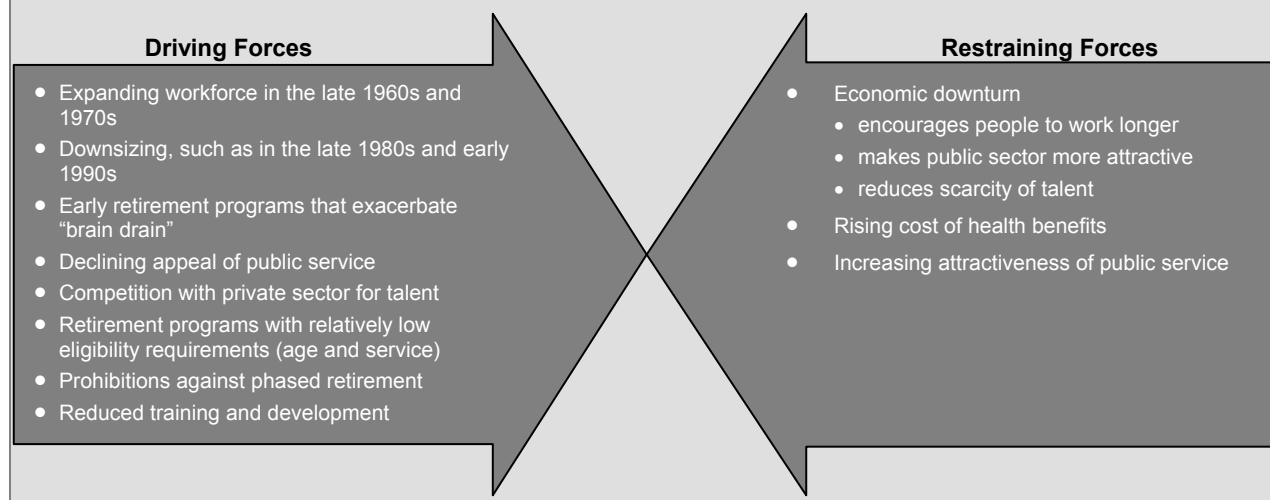
- The public sector’s relative job security—compared to that of dot-com companies, for example—makes it easier to recruit new employees, especially those disenchanted by the “disappearing” of private-sector companies and jobs. As one state human resource manager notes, unlike some employers, “We’ll never go out of business.”
- Rising cost of health benefits At least one jurisdiction noted that some older employees are deferring retirement to forestall having to pay higher health insurance premiums or co-pays.
- Increasing attractiveness of public service. Some jurisdictions felt that the events of September 11th have made public service careers somewhat more attractive.

The following force-field analysis summarizes the factors that contribute to the current challenges facing jurisdictions due to aging workers and retirements. (These are listed as Driving Forces.) It also shows the Restraining Forces that offset the drivers. As in any force-field analysis, the outcome of these conditions—here, the severity of the challenges the government sector faces—depends on the relative force of drivers versus restraints.

A favorite tool in the field of organizational development, a force-field analysis is useful not only for understanding root causes. It can also help identify alternatives that could alter the current stasis, for example by adding or escalating driving forces or by reducing or eliminating restraining forces. By altering the current balance between drivers and restraints, it is possible to achieve change.

Thus, jurisdictions can reduce the challenges posed by the aging workforce and retirement wave through actions that decrease the drivers or increase the offsetting restraints. Some factors, such as the economy, are beyond the organization’s control. Therefore, it is incumbent upon the organization (or upon some smaller or larger entity, such as a department or a coalition of organizations) to identify changes it *can* make to modify the current standoff between driving and restraining forces.

Factors that Contribute to the Government Sector’s Challenges Due to an Aging Workforce and Retirements



3. Greater aging workforce challenges do not necessarily require bigger organizational responses. In fact, identifying the most strategic trouble spots and then *selectively* addressing them appears to be more effective—and more doable—than increasing the scope of the organization’s response in proportion to its aging workforce challenges.

Which jurisdictions face the greatest challenges due to the aging workforce? If you gauge the size of the challenge by the percentage of their workforce that is eligible for retirement now or will be within five years, then the Air Force Materiel Command (40% of civilians), Henrico County, VA (38%) and the General Accounting Office (38%) top the list. (Pennsylvania may join them, if it passes proposed legislation to lower its retirement-eligibility criterion from 35 to 30 years of service.)

We might have expected that these jurisdictions’ responses would be broader and/or more elaborate than in other jurisdictions, in proportion to their aging workforce. But that is not what we found, in most cases. In fact, what is immediately striking about these and other examples listed below is that they have chosen to *narrow* the focus of their response. Rather than assuming all retirements are equally significant, they have analyzed which ones will have the greatest impact or be the most difficult to deal with. Then they have aimed their efforts at those selected cases.

The profiles contained in this report describe in detail how jurisdictions are seeking targeted responses to their most critical needs, rather than treating all jobs, all skills and competencies, and all knowledge as equally important to the organization’s future. Examples include:

- Pennsylvania’s selective approach to closing the workforce supply/demand gap
- TVA’s efforts to identify and preserve critical organizational knowledge
- GAO’s use of early retirement and employee redeployments when they are aligned with organizational needs
- The Army’s expertise in workforce analytics and modeling at both the macro and the micro level

Jurisdictions benefit from selective approaches in important ways. First, such an approach helps them break down a large and potentially overwhelming problem to more manageable scale. Second, it enables them to deploy limited resources to areas of greatest need.

4. Data rule.

An organization’s first response to the challenges of an aging and soon-to-retire workforce must be to secure accurate data. Jurisdictions that are leveraging such data to maximum advantage do so by constantly updating it. They also keep revising their analyses and statistical models, based on any forecasts that don’t pan out, to enhance their validity. As the profiles document, having such information enables an organization to plan effectively and to identify areas that need immediate attention. Sound data can also be used to persuade others, such as senior executives and policy-makers. Numbers can also be a catalyst, moving individual stakeholders from a myopic view of the problem (“Woe is *me*.”) to a collaborative plan of action (“Let’s do something about it!”), as Washington’s profile describes.

At the most fundamental level, collecting and analyzing data (a process that is sometimes referred to as “workforce analytics”) for the purpose of workforce planning should include:

- Age distribution of the workforce
- Retirement eligibility projections
- Retirement patterns (Based on previous behavior patterns, how soon do employees retire after reaching eligibility?)
- Other attrition patterns (such as turnover) that affect future workforce supply

It is even more helpful if such information can be analyzed at a more micro level, for example, by geography, job classification or occupational group.

To see exactly how sophisticated workforce analytics can be, read the Army profile. While the size of its workforce and the extent of its personnel records are substantially larger than most organizations’, it is useful to see the state of the art of fine-grained analysis. The Army can pinpoint the basic measures (such as those listed above) under specific conditions. For example, it can look at how changes in the economy affect workforce dynamics. In fact, it’s because the Army’s forecasting model is itself dynamic that it rises above all the others we studied. Rather than using just *any* historical data, it can be very choosy about which past patterns to incorporate into a model, making sure they closely match whatever future scenario it wants to investigate.

In addition to these quantitative data, jurisdictions benefit by tracking another aspect of human capital management: the competencies needed now and in the future. Ideally, the organization has a competency model with some set of agreed upon competencies that cut across job classifications, departments, and even organizational boundaries. Such an approach gives everyone a shared definition of the required competencies, which can be integrated into the organization’s performance management system, training and development, and compensation.

In regard to workforce planning, the next step for some jurisdictions we interviewed will be to include competencies in the database. Doing so will enable them to track the current supply and location of those competencies against future needs (i.e., who in our workforce has this competency and where are they currently located?). Such tracking will also drive the training and development agenda.

5. The challenges of an aging-and-retiring workforce are new, but the tactics for dealing with them are familiar and, in many cases, already in place.

Many of the initiatives that jurisdictions are using to meet the challenges of an aging workforce are not new or surprising. They are familiar tactics, discussed below. (See Item 7.)

What is new:

- *The driving force for adopting or intensifying these tactics*, since the American workplace has never before faced the demographic challenges that are beginning to develop in some sectors— such as government, health care, and utilities—and are likely to develop soon in others.
- *The sense of urgency* felt in some jurisdictions where the issues are especially acute.
- *The need to adapt some familiar tactics to a different demographic profile or new employee populations*. For example, some jurisdictions have begun promoting flextime, telework and other work/life initiatives when they recruit younger workers, since such practices are thought to be appealing to Gen X employees. Others we interviewed have investigated which factors would be most persuasive in influencing older workers in certain hard-to-fill occupations, such as nursing and engineering, to defer retirement. Knowing what such workers want enables them to offer incentives targeted to a specific employee population.

6. Workforce planning isn't rocket science. But its execution is what separates best practice from hit-or-miss approaches.

Part III: Recommendations includes a basic model of the workforce planning process, which has four components: assess future needs; assess future supply, identify the gaps, and develop a plan for closing them in time to meet future needs.

The fundamental process of workforce planning is relatively consistent across jurisdictions, we found. Our research uncovered no big surprises or “secret ingredients” that one jurisdiction knows that others do not. Where we did find variability was in the execution:

- Workforce planning is centralized (the federal government) vs. decentralized or a hybrid (Pennsylvania)
- Workforce planning as an elective process (Phoenix) vs. a mandated one (Henrico County's succession management program)
- Workforce planning as an occasional or one-time process (a common approach, we found) vs. ongoing and institutionalized one (Minnesota Department of Transportation, Washington) and the frequency with which analyses are updated and refined
- Workforce planning using a dynamic (Army) vs. static model (the more typical approach)

7. Keep it simple.

If you want line managers to do regular workforce planning, you've got to make it uncomplicated for them. One way to do that is to integrate it with other processes, such as strategic planning. Another is to make sure the tools are easy to use. The first time around, it's likely to take managers longer than in subsequent iterations. Once workforce planning becomes an ongoing process, it's just a matter of adjusting previous plans, rather than creating completely new ones.

8. To close the gap between future workforce supply and demand, jurisdictions need a coordinated action plan that may include all phases of the employee life cycle.

It's an easy, but erroneous conclusion: Faced with an aging workforce and an approaching wave of retirements, organizations need to "fix" the two end-points of the employee life cycle. Do something to slow or postpone some of those retirements. And begin recruiting younger replacements.

While these responses may be appropriate and effective, they are unlikely to be sufficient. Rather, the jurisdictions in our study that have committed themselves fully to addressing the challenges of an aging-and-retiring workforce employ a comprehensive human resource strategy. Such a strategy touches virtually every stage of the employee life cycle:

- Recruitment and selection
- Performance management
- Compensation and benefits
- Training and development
- Leadership development (including succession management, coaching and mentoring)
- Career management
- Retention
- Retirement

There is no single magic bullet that can overcome the government sector's aging-and-retiring workforce challenges. Our research suggests it will require a comprehensive strategy of multiple tactics.

Interventions that address the challenges of an aging workforce may intersect with a variety of other practices already in place, such as flexible work arrangements, work/life programs, diversity and knowledge management. We take this as good news for organizations. While the aging workforce is a new issue for most employers, it doesn't require a host of new tools or tactics. It *does* require looking at existing practices to see if they need to be tweaked, expanded, or redirected.

9. Writhing on the horns of a dilemma: The trade-off of short-term solutions and long-term needs.

Many jurisdictions currently feel pulled in two directions: their workforce-planning process shows them there are serious challenges ahead due to an aging workforce and retirements, but their budgets are severely cut. There's pressure to choose a short-term fix, such as early retirements, layoffs, and reduced training. This point is important to acknowledge, since it means that "rational" decisions do not always prevail. In the next section of the report, the study's sponsors, CPS Human Resource Services, further discuss this dilemma.

10. Some structures may need to be changed.

Faced with unprecedented human capital challenges, jurisdictions may need to initiate structural changes. Some will be within their span of control and others will require negotiation, charter changes, or new legislation.

Our research identifies structural changes some jurisdictions have made to address these challenges, such as:

- Changes to the retirement system, such as removing early-retirement incentives or penalties for working past retirement eligibility
- Changes to enable employees to choose phased retirement
- Changes to allow the jurisdiction to rehire its own retirees
- Changes to merit system or civil service rules regarding recruitment, selection, succession management and other processes

11. A difference of opinion: Is it okay to ask employees when they expect they will retire?

Organizations hold different views regarding the appropriateness of asking employees to inform them, voluntarily, when they anticipate retiring. Most employers we interviewed vehemently opposed such a practice since it could expose them to future age-discrimination charges made by employees who had been turned down for training, a promotion, or other opportunities.

The Tennessee Valley Authority (TVA) is the single case we identified where an organization *does* ask employees to voluntarily indicate when they expect to retire. The response has been extremely positive: 80% provided the information. Because the TVA explained the rationale—it wants to plan effectively to avoid knowledge gaps when employees retire—many employees reacted with comments such as “It’s about time. I wondered when you were going to ask.”

TVA sources suggest that older employees care about the organization’s future because have spent their careers with the company. We can speculate that other factors may also contribute to this steward-like concern for the future. For example, it seems likely that a basic sense of trust must be present between employer and employee. Long-term employment in the same organization may also be a factor. In any case, the TVA benefited by asking, since employees’ tentative retirement dates proved to be more accurate than the educated guesses the utility made on its own, based on historical data. For that reason alone, employers should reconsider how they might pose a similar question to employees without putting the organization in legal jeopardy.

12. Employees can be allies in preparing the organization to meet future human capital needs.

The TVA’s experience managing “knowledge lost through attrition” points to the opportunity to enlist older employees as allies in addressing future workforce needs. TVA employees who were “at risk” for retirement and working in difficult-to-fill positions were interviewed at length about their knowledge, skills, and experience. This process engaged the incumbents in helping the organization to plan proactively for the future. According to company sources, employees were pleased that, in

conducting this exercise, the TVA was explicitly acknowledging the value they brought to their jobs.

13. Forewarned is forearmed. And forearmed is *confident*.

One of the most striking benefits of thorough, ongoing workforce planning is the measure of confidence it provides—even in jurisdictions whose workforce challenges might well be described as monumental.

Just as the elaborateness of an organization's responses needn't grow in direct proportion to the size of its aging workforce, bigger aging-workforce challenges don't necessarily lead to more panic and bigger problems. The Army is the ultimate example, since it expects 55,000 retirements over the next five years. Yet because the Army's workforce-analytic capabilities are so advanced, it is perhaps the *least* worried organization of any we interviewed—not just in government, but across the three sectors we've studied.

But the Army isn't the only example. Pennsylvania and Washington also possess an unflappability that comes from feeling prepared for whatever the future brings.

That is a hopeful note on which to conclude our analysis of what we learned from this research. The sponsors of our government-sector study, CPS Human Resource Services, also find cause for hope in the study's findings. They elaborate on their reasons in the next section.



Take-Aways from the Research

A Commentary on the Study's Findings

Pamela Stewart, Co-Executive Director
Ed Cole, Co-Executive Director
Bob LaVigna, Client Services Manager
CPS Human Resource Services

This research on the HR Challenges Raised by the Aging Government Workforce is being released at a momentous time for the public sector:

- ♦ Jurisdictions at every level have realized that their workforce is made up of a disproportionate number of older employees compared to younger ones, and that large numbers of workers will soon be retiring, taking with them skills, knowledge and relationships that will be difficult to replace.
- ♦ But at the same time, most jurisdictions are also bracing for budget cuts. Many have already experienced them. As a result, government agencies at all levels are being pushed to find short-term solutions—exactly the opposite of what they need to do to address the aging workforce issue.

This *combination* of circumstances poses an immense challenge. How can governments grapple with short-term fiscal constraints while, at the same time, ensuring their organizations are ready to deal with future needs?

The results of this study point to innovative ways that local, state and federal governments are responding to these challenges. It's too early to call the approaches profiled in this report "best practices," since the unique set of demographic challenges they address is still fairly recent. But the tactics these two cities, two counties, one consortium of counties, four states and three federal agencies have implemented in response to those challenges offer important lessons for other jurisdictions.

A HOPEFUL MESSAGE

If there is one key take-away for us, as we study the report, it's that *even in the face of fiscal constraints*, there is much that public sector leaders can do to manage the current human capital challenges while preparing their organization for the coming wave of retirements. That is hopeful news. Rather than postponing action until the budgetary climate improves, jurisdictions can learn from the initiatives described in this report. From them, they can find useful models, tactics and tools, many of which require little to no additional resources.

Through our work with public-sector clients at all levels of government and with other non-profits, we know that there are enormous pressures to trim budgets and reduce headcount by encouraging employees with the longest tenure to retire as quickly as possible. There is also a tendency to think we can't deal right now with issues that may not hit us for two or three more years—such as large waves of retirements. We have to get through *this* fiscal year and the next,

and hope that by the time large cohorts of employees reach retirement eligibility, we'll have figured out a way to keep them.

This study offers an alternative to such thinking, since it describes how selected jurisdictions are simultaneously managing *both* short-term budget reductions and long-term workforce planning. Because the profiles range in size from a relatively small organization (the city of Anaheim, California, at 2,100 employees) up to the truly mammoth (the United States Army's 276,000-plus civilian workforce), readers will see innovative solutions executed on various scales.

There is a second reason why this research strikes us as especially timely for public-sector organizations. Current budget cuts and hiring freezes are potentially advantageous for long-term human capital strategy. **Faced with a temporary lull in hiring, jurisdictions may use this opportunity to do a more careful analysis of future needs versus current capabilities than might be possible if they were frantically trying to fill positions.** One of the striking features of many organizations interviewed for this research is that they are not just hiring people who can do what needs to be done today. They are committed to defining what their workforce will need to be able to do *in the future* and then hiring and/or developing employees accordingly. In other words, they are not simply trying to perpetuate their current organization or their current competencies.

ADDITIONAL INSIGHTS

So what, specifically, do we think jurisdictions can learn from this study? Here are what we see as key take-aways:

1. Within the public sector, some jurisdictions have developed and refined their approach to workforce planning to a very high level of sophistication.

Without a doubt, the Army's analytic tools and forecasting models define the current state-of-the-art. To our knowledge, it is unrivaled in terms of the depth of its personnel database, the sheer size of the employee population it tracks, and the micro-analyses and projections of which it is capable.

But the Army is not the only jurisdiction that had advanced the state of workforce planning well beyond the most basic approach. Other notable examples include Washington, Pennsylvania, Maine, and Minnesota's Department of Transportation.

Often, we who practice human resource management in the public sector view ourselves as playing perpetual catch-up with the private sector, forever seeking ways to adapt what we see them doing to our own organizations, in spite of fewer resources, more barriers, and endlessly more regulations.

That's decidedly *not* the case in regard to workforce planning. Driven by demographic trends that will hit the public sector sooner than most others, jurisdictions like these have taken the fundamentals of workforce planning and moved them several generations ahead. In fact, we suspect that three-to-five years from now, as the aging workforce becomes a more pervasive issue—becoming, if Peter Drucker's words, “the dominant factor in the next society”—corporations will turn to public sector managers for expertise in managing.

We also expect that major e-HR providers—industry leaders such as PeopleSoft, HRSoft, SAP, and others—will meet the growing demand for new workforce planning products and services by distilling innovations and lessons learned by first-movers from the public-sector, including those profiled in this report.

You will notice that some jurisdictions have made workforce planning an ongoing priority, which means dedicating staff to it and establishing accountability to ensure it does not become a one-time activity.

2. It's not *just* about the numbers, it's about the shape of the workforce.

While it's critical that government agencies collect and analyze workforce data, another important finding of this study is that the numbers, themselves, are not the point of the exercise, or its most important outcome. The real issue is the "shape" of the workforce: the skills and competencies available, the skill and competencies that will be needed in the future, and the plan for eliminating and gaps.

Through our work with public sector clients, we've learned that some jurisdictions stop once they've done the number-crunching that tells them what they can expect in regard to headcount. What we see in the examples profiled here is that it's essential to have those numbers, but clearly not enough. The GAO and Pennsylvania, for example, rigorously assess—and, later, systematically revisit—future skills, competency and occupational needs. The TVA has a quantitative rating system to identify at-risk knowledge that needs to be preserved for the future. Phoenix and Anaheim have developed an extensive strategy to develop the next generation of leaders and grow-their-own talent. Minnesota's Department of Transportation and Maine carefully link training and development to their competency model.

3. To meet the challenges of an aging workforce—or, for that matter, any other human resource challenge—an integrated approach to workforce planning is more effective than any one tactic.

The report profiles several jurisdictions—including the state of Maine, the United States General Accounting Office and the Air Force Materiel Command—that are using multiple approaches to closing the gap between future, workforce supply and demand. They're intervening at many different points in the employee life cycle: recruitment, selection, training and development, retention, performance management, career development, and retirement. But it's not just that they're "doing a lot of things." Those "things" all share a common foundation, such as a competency model and/or a value system (such as the GAO's commitment to performance-based HR decisions), which in turn ensures they're serving a common purpose. The result is a coordinated and comprehensive human capital strategy.

4. The most successful approaches to workforce planning engage managers at all levels of the organization, and are not just driven by HR.

The study identifies a variety of approaches to engaging line managers in workforce planning. Washington has found that providing big-picture, demographic data establishes a common challenge and mobilizes individual agency heads to look for statewide solutions. The Army has made its workforce analysis and forecasting tools so user-friendly that personnel throughout the world can use them. Pennsylvania leaves workforce planning for specific job classifications to the individual agency that employs those workers. Why? Because the agency knows, far better than the state department of personnel, what skills and competencies it will need in the future. Only when multiple agencies employ workers in the same job classification does Personnel take the lead in workforce planning. That's because no one agency has enough information or perspective to see across its own organizational boundaries.

5. The public sector has contributed to the problems it now faces by offering employees retirement eligibility much earlier than do private sector employers.

In the words of Pogo, “We have met the enemy and it is *us*.” Today, the retirement of large numbers of older workers is a much more acute problem for the government sector, in comparison to other sector. That’s because retirement plans for most jurisdictions allow—and in many cases, *reward*—retirement at a relatively early age, as seen in this research.

Historically, one of the great attractions of public service was its generous retirement package, including the opportunity to switch to a second career later in life, while collecting retirement benefits from your former employer.

But today, the relatively young age at which most government workers may retire is becoming increasingly out of step with the rest of American employment practices. Longer life expectancy and healthier aging call into question what had for decades been thought of as the “normal retirement age” of 65 years old. Social Security policy is being gradually adjusted upward to encourage longer work lives. And rising healthcare-benefit costs, the movement from defined benefit to defined contribution retirement plans, and the shrinking value of many people’s retirement savings—all of these factors are influencing workers to continue working later in life. In light of these changes, government-sector retirement policies that allow employees to retire at 50, 55, 60, or even 62 are increasingly out of step with other American workplaces.

While retirement policy is not the focus of this study, it is striking, when reading the profiles that follow, to note that the challenges of an aging workforce are exacerbated by retirement policies that encourage them to leave at a young age with full retirement benefits. Having done so, they may then choose to work for a private-sector employer. In a society where, over the next decade and a half, the workforce will increasingly fall short of overall human capital needs, the public sector needs to reexamine its retirement policies in light of new realities.

6. Government-sector employers are successfully adopting human resource practices from the private sector.

Traditionally, many public-sector HR professionals felt it was their responsibility to protect their organizations from the potential hazards of private-sector practices. For example, they zealously warned against preselecting succession candidates, since that would violate civil service or merit system principles of fair and open competition. *We can’t do that in the public sector*, they argued.

What we learn from this research is that some jurisdictions have overcome such stumbling blocks and found creative ways to adapt public-sector practices within a merit-system environment. Henrico County, VA and the Minnesota Department of Transportation (MnDOT) are two such examples.

Adapting succession management to fit in the public sector is another example of HR professionals’ shifting role. It’s a progression from the HR staff person whom managers see as “always telling me what I *can’t* do” to the strategic partner who offers creative solutions that ensure the organization has the human capital needed to meet its business challenges.

7. We need to challenge the assumption that our employees’ retirement intentions are a don’t-ask-don’t-tell issue.

We often hear from HR professionals that they can't ask their employees when they are planning to retire, since doing so could expose the jurisdiction to future age-discrimination lawsuits. Yet CFOR's research has identified one public-sector employer, the TVA, that has rejected that limitation. Rather than relying on statistical models of past retirement patterns to forecast future patterns, the TVA decided to come right out and *ask* employees their plans. The result? More than 80% volunteered that information, which enabled the TVA to do more effective workforce planning for the future.

In CPS's own practice, we have seen other jurisdictions ask similar questions of their older employees. Sacramento (CA) County, for example, sent out an anonymous survey asking employees a series of questions about retirement. Not only did this information allow the City to plan better. It also told the city what it could do to encourage workers to remain on the job longer, or to come back to work for the city after they'd retired. Other jurisdictions we know of have asked similar questions in the context of a management-group meeting.

We see the study's findings as further evidence that public-sector employers—and the HR professionals who guide them in such matters—should reconsider their approach to managing human capital. It may not always be in the organization's best interests to design its practices around the fear that *some* employee might *someday* sue them. Instead, this study suggests, it may be more effective to nurture commitment and trust within the workplace. In the absence of more adversarial relations, employers may legitimately ask about retirement intentions and an employee may comfortably answer. Both acts are the natural expression of their common commitment to the organization's future.

The caveat, of course, is that once the employer has asked employees about their retirement intentions, it is critical *not* to use that information against the employee in any personnel decision such as promotions or training. The report describes the TVA's practices in that regard.

8. Careers in government have much to offer. Jurisdictions must aggressively communicate those benefits to potential applicants and leverage them to retain their best employees.

The downturn in the US economy has, for the time being, restored to the public sector some competitive advantages in attracting and retaining employees. Many of the organizations profiled in this report have found this to be the case. Unlike some private-sector ventures, government will never go out of business. It also offers greater job security than the once vaunted, and now ridiculed, dot-com world. Many public-sector organizations also demonstrate a respect for employees' life outside of work—a value often missing in the private sector. But the most compelling reason for people to choose a career in public service remains, as it always has been, the opportunity to improve the quality of life for others. It's a more compelling mission than jobs in most other sectors can offer and, in the present climate, that is a value proposition and a competitive advantage that jurisdictions should make the most of.

9. Finally, we are struck by the way the HR leader's role is changing with the growing need for strategic workforce planning.

The old caricature that the HR person's job is to warn managers about potential hazards and risks is—thankfully—falling away. It is being replaced by a more powerful leadership role helping the organization plan for what it will need to be. In order to play that role effectively, the HR professional needs to be able to analyze and use data. She or he must also be an expert, on a par with the organization's top financial and budget executives, in forecasting and planning. And he or she must be able to do all this in a context rife with challenges: an

often-messy political process, a cacophony of social influences, and a wobbly economic climate.

We are proud to have sponsored CFOR's study of the *HR Challenges Raised by the Aging Workforce*, in partnership with IMPA, CSG, and NASPE. This research goes beyond previous reports that present various approaches to workforce planning and provide models and tools. In effect, this report answers the question, "So *then* what?" By investigating the scope of the aging workforce challenges selected jurisdictions face, and then describing exactly how they are dealing with them, this report makes an important contribution to the field of public management. Over the next decade, as the aging government workforce continues to be a major strategic issue, we expect this study will continue to be an important resource for leaders.



Research Findings Part I: How Bad Is It?

This section uses demographic data to assess the scope of the aging workforce and projected retirements, beginning with the US workforce as a whole and then looking at the government sector.

THE AGING US WORKFORCE

America is rapidly approaching a crisis in its workforce, triggered by the convergence of two demographic trends: the growing number of aging Baby Boomers in the population and the much smaller number of younger people who follow behind them. Figure 1 shows the changing age distribution within the US population between 2000 and 2010: the dramatic upswing in the number of persons age 50-69, the shrinking population of 30-44-year olds, and the modest increase in the next cohort of twenty-somethings.

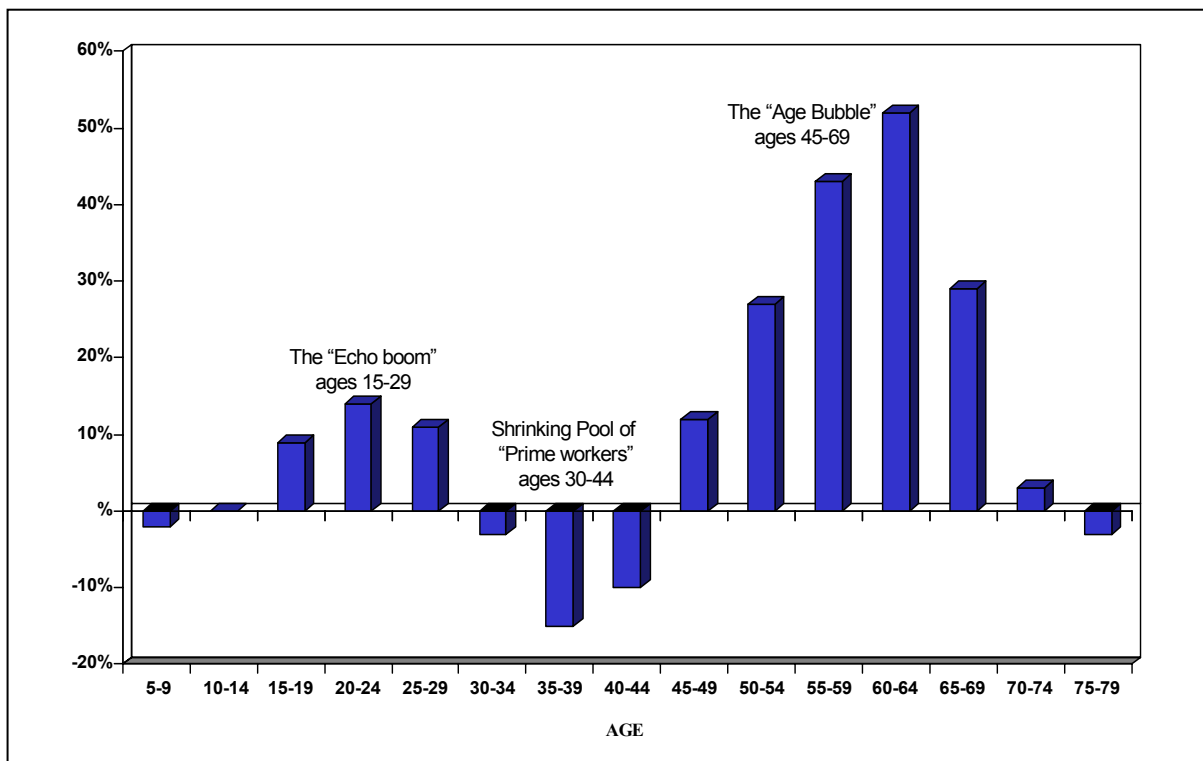


Figure 1: Percentage Change in Population by Age Group, 2000-10 (Estimated)

Source: DRI-WEFA

Impacts on the Workforce

These changes will play out in the workforce. The proportion of older workers (here defined as age 55 and up) is expected to shoot up an average of 4% *per year* between 2000 and 2015, as shown in Figure 2.

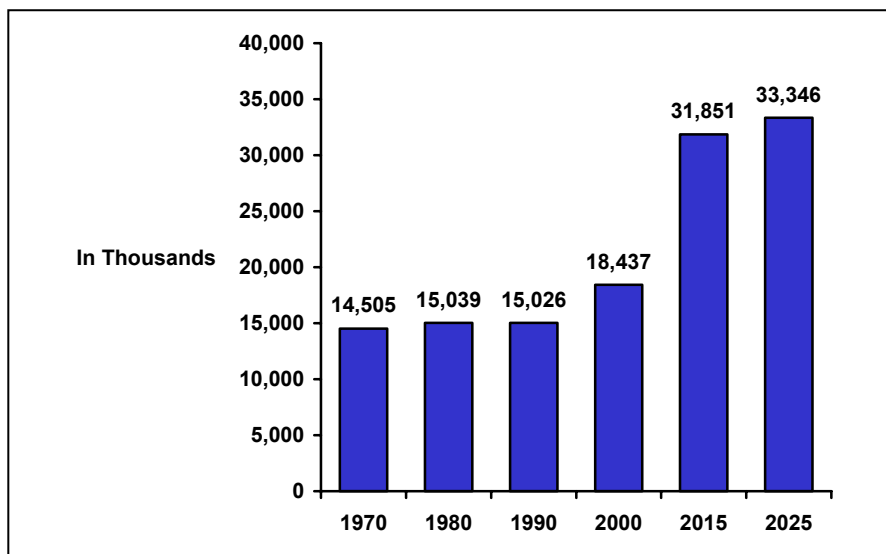


Figure 2: Past and Projected Numbers of Workers Over Age 55, 1970 – 2025

Source: The United States General Accounting Office (GAO), 2001

The rapid increase in workers over age 55 is due to the so-called “Age Bubble.” It is also due to a general trend in the US toward greater labor force participation by older persons (GAO, 2001).

What is the Age Bubble?

The Age Bubble is the balloon effect created by the baby boom generation (people born between 1946 and 1964) whenever it does anything *en masse*—whether it’s starting school (which led to overcrowded classrooms and double-sessions, followed by a building boom in new schools), becoming teenagers, going to college (another spate of professor-hirings and expanded campuses), becoming parents, turning 50 (The AARP reinvented itself to become more attractive to “young elders”), or retiring (the focus of this report). The sheer number of baby boomers who will become eligible for retirement between now and 2015, coupled with the much smaller pool of younger workers who can take their place, make the Age Bubble a critical human resource challenge for employers.

The growing ranks of older workers is not the only shift that will be taking place in the workforce. The proportion of younger workers is also shrinking. According to the Bureau of Labor Statistics (BLS), workers age 25-44 will decline by 3 million, dropping from 51% of the labor force in 1998 to 44% in 2008, while, over the same period, workers age 45+ will increase from 33% to 40% of the workforce, an additional 17 million workers (Dohm, 2000).

What These Changes Mean for Employers

The graying of the US workforce is not just a cosmetic change. In some sectors of the economy, it will bring a serious shortage of workers. According to a recent report from the Employment Policy Foundation, more than 61 million Americans will retire during the next 30 years. Within five years, the US workforce will begin to dwindle.

How severe could the impact be? If the present trend continues, the Foundation projects, the US will face a labor shortage of 4.8 million workers in 10 years, 19.7 million in 20 years and 35.8 million in 30 years. College-educated, highly skilled workers will be in particularly short supply. Unless these shortages can be averted, the country's gross domestic product, the output of goods and services produced by labor and property located in the United States, could drop 3% in 10 years and 17% or more in 30 years. For workers, that would translate into a significant drop in average per capita income (Employment Policy Foundation, 2001).

Which Sectors Will Be Most Affected?

Not all industries will be affected equally by these changes. Some will take an especially hard hit, while others may experience a smaller, or delayed, impact.

BLS projects that five industries will be most affected by retirements in multiple occupations (Dohm, 2000):

- ◆ Manufacturing
- ◆ Public administration
- ◆ Educational services
- ◆ Transportation
- ◆ Health services (especially hospitals)

Why these five sectors? Briefly, there are three main reasons:

Historical employment patterns, such as periods of workforce expansion and contraction that have resulted in a disproportionate age distribution, with more older workers than younger ones

Structural factors, such as retirement policies that allow and encourage retirement at an early age

Occupational patterns, such as a concentration of workers in specific occupations that have an above-average concentration of older workers and below-average proportion of younger ones

For a detailed discussion of factors affecting which industries are already experiencing the “age bubble,” see the report's final section. *Holding On: How the Mass Exodus of Retiring Baby Boomers Could Deplete the Workforce, What Some Employers Are Doing to Stem the Tide* is a white paper that elaborates on those factors and provides bibliographic information on the sources cited above.

THE AGING GOVERNMENT WORKFORCE

Now we turn to the aging-and-retirement issue within government, answering our first research question: How bad is it?

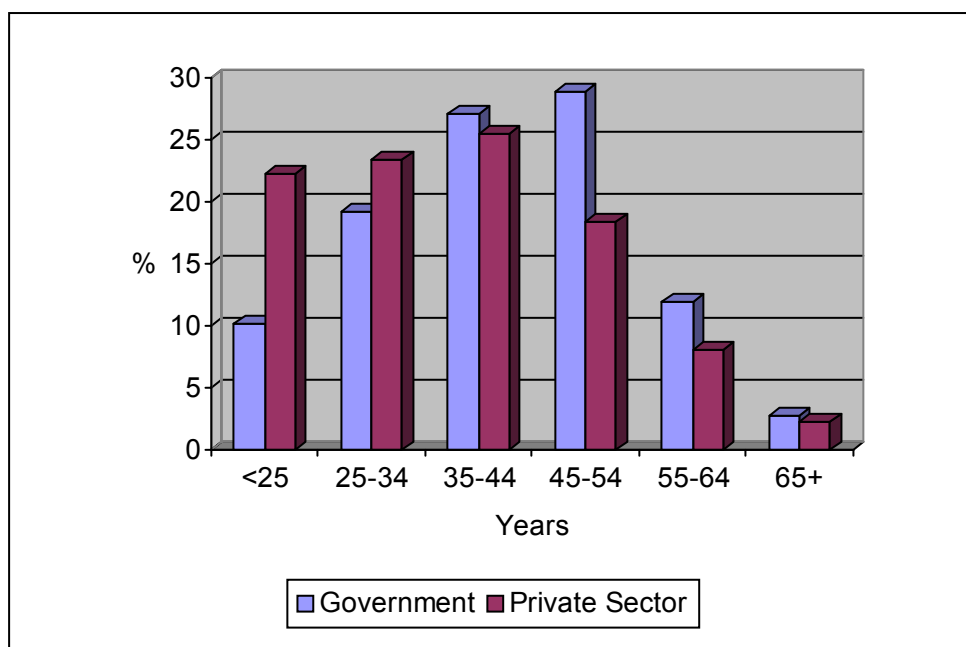
We begin by reviewing workforce analyses from various sources: the United States Office of Personnel Management, the Rockefeller Institute of Government, and a recent survey conducted by the Council of State Governments and the National Association of State Personnel Executives. First we review data regarding the aging workforce. Then we present recent retirement projections. Finally, we reflect on those analyses based on the interviews conducted as part of this study. What additional insights or perspective have we developed that may help jurisdictions interpret these workforce data?

Recent Analyses of the Aging Government Workforce

How bad is it? Looking at the workforce across all levels of government as of 2001:

- ◆ 46.3% of government workers are age 45 or older. This figure is particularly striking in contrast to the private sector, where just 31.2% are 45 years and older.
- ◆ The percentage of older (in this instance, defined as age 45+) workers in the government workforce increased by 7.3% between 1994 (39%) and 2001 (46.3%). The private sector saw an increase of 5% (from 26.2% to 31.2%) for the same period. Thus, the differential between these sectors—which was already significant—continues to grow.
- ◆ Equally vexing is the proportion of younger workers (under 35 years). In the government workforce, it's 27.3%, compared to 43.2% of the private sector workforce.

Source for the above data as well as the following chart: Craig W. Abbey and Donald J. Boyd, *The Aging Government Workforce*, Nelson A. Rockefeller Institute of Government, July 2002

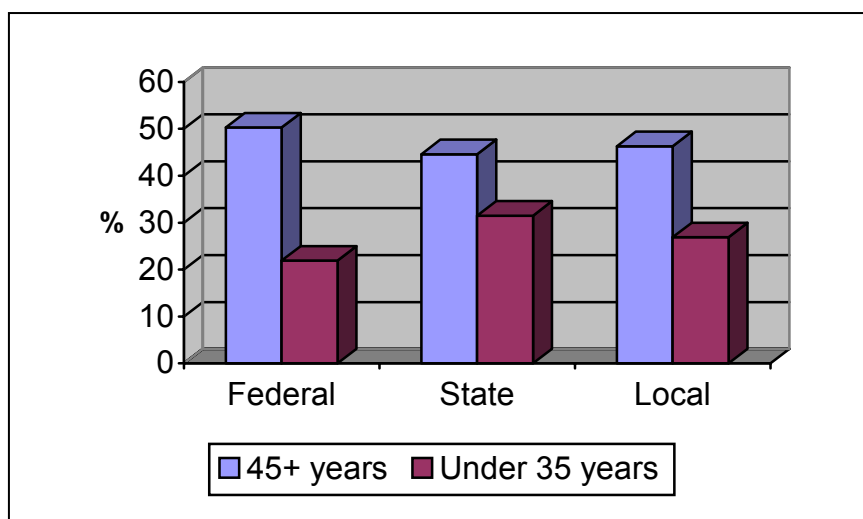


Age Distribution of Government and Private Sector Workers, 2001

It's the combination of a growing segment of older workers and a dwindling cohort of younger ones that is particularly troublesome to future government staffing. That's why many of the jurisdictions featured in Part II of the Research Findings are addressing these challenges on multiple fronts, rather than just one. It's not enough to do more recruiting. It's also important to analyze which retirements will be most difficult to respond to; to identify which skills and competencies will be needed in the future; to facilitate knowledge transfer from older workers to younger ones (for example, through a knowledge management system, coaching, mentoring, training, job rotation, or other measures); to develop leadership skills and create a succession pool; and even to persuade selected employees to delay their retirement or make it feasible for them to return to work after they retire.

The disproportionate number of older workers (age 45 and over) versus younger ones (under age 35) differs somewhat by level of government, as shown below.

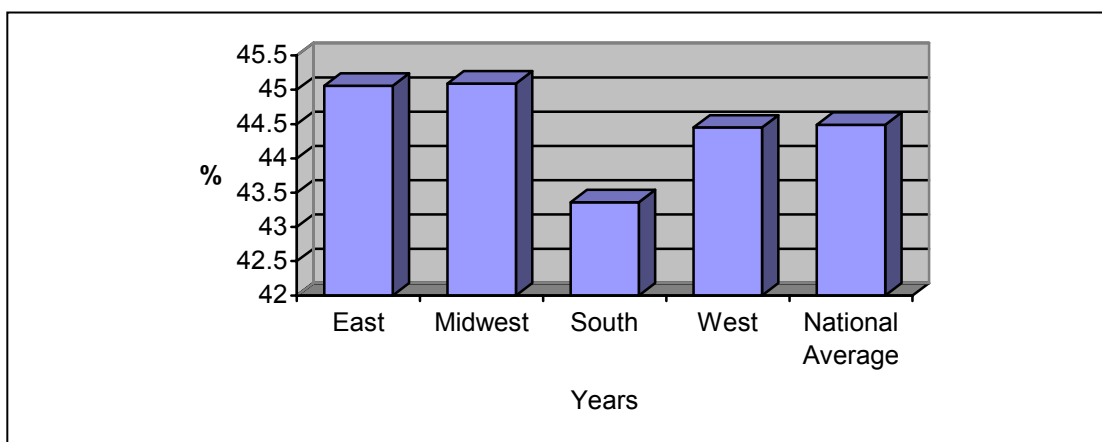
- ♦ The age differential is most acute at the federal level, which also has the highest percentage of older workers and the smallest percentage of younger ones.
- ♦ The age differential is smallest in state government. However, the percentage of older workers is still higher (44.6%) there than in the private sector (31.2%). And younger state workers (31.5%) are still a smaller segment than in the public sector (27.3%).



Younger and Older Workers by Level of Government

Source: Craig W. Abbey and Donald J. Boyd, *The Aging Government Workforce*, Nelson A. Rockefeller Institute of Government, July 2002

Additional data on the state-level government workforce come from a national survey on the state employee worker shortage, jointly sponsored by the Council of State Governments (CSG) and the National Association of State Personnel Executives (NASPE) (shown below). The average age of the state workforce varies by region, the survey found, with a substantially higher average age in the East (45.06 years) and Midwest (45.09 years) than in the South (43.36 years).



Average Age of State Employees by Region

By state, the oldest state workforces are in Ohio and Rhode Island (48 years), Idaho and Washington (47 years), and Iowa, Minnesota, and Pennsylvania (46 years). The youngest are in Utah, Missouri, Mississippi and New Mexico (42 years).

Retirement Projections for the Government Workforce

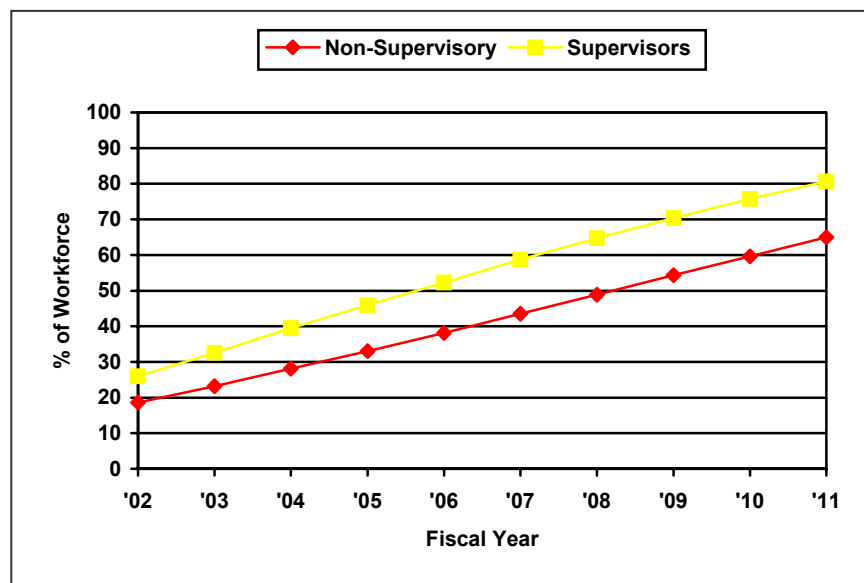
Federal Government

In January 2001, the General Accounting Office decreed a “human capital crisis” in federal government, in part due to the age and approaching retirement of so many workers. That same year, the Office of Management and Budget (OMB) directed major federal agencies to conduct a detailed workforce analysis as part of the annual budget process. The analysis tracks employees’ age, grade and retirement eligibility. It forecasts retirements and attrition for the next five years. And it captures data on numbers of employees by occupation and additional data on managers.

Based on this information, the Office of Personnel Management (OPM) produces two kinds of retirement projections:

- The number and percentage of the federal workforce who will become eligible for retirement in a given fiscal year
- The number and percentage of the federal workforce who will *actually retire* in a given fiscal year

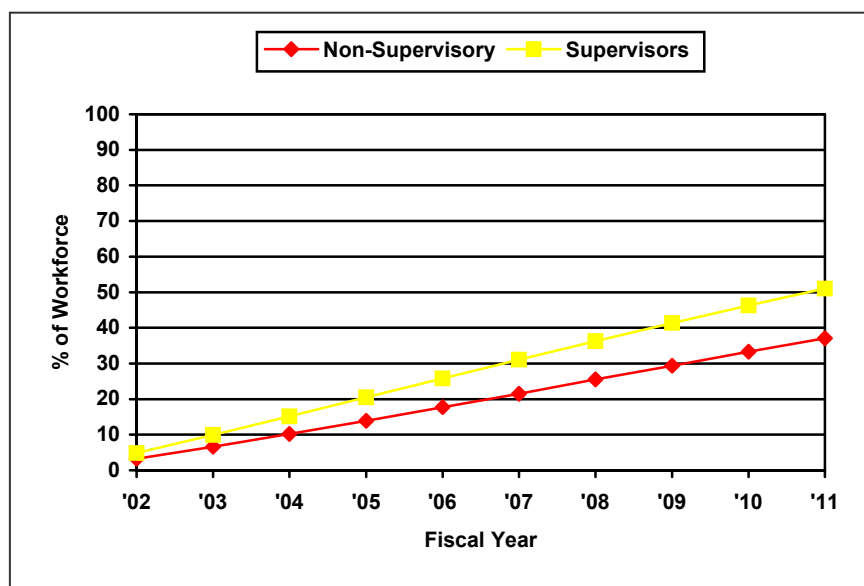
The figure below shows retirement-eligibility projections for full-time, permanent supervisors and non-supervisory employees who began employment before October 1, 2001.



Federal Employee Retirement Eligibility: Full-time, Permanent Employees, FY2002 – 2011

Clearly, the federal government workforce could be entering a period of unparalleled turnover. Almost one-third of all supervisory staff will be eligible to retire before the end of FY03. Three-quarters will be eligible within the next seven years, as will nearly 60% of non-supervisory employees.

But when will they *actually* retire? That's something OPM can project with far less confidence. The next chart shows some cautious projections. It's followed by important caveats regarding the forecast's limitations.



Federal Employee Retirement Projections: Full-time, Permanent Employees, FY2002 – 2011

These projections suggest that significantly fewer federal employees will retire each year than are eligible to do so. That would be good news, generally speaking, since it would give agencies more time to prepare for the large number of retirements that eventually *must* occur.

But OPM, itself, is quick to point out the limitations of these retirement projections. Here are some of the problems:

- ♦ The projections are based on government-wide retirement patterns, which may or may not hold true for specific agencies. Chances are that NASA's scientific and technical workforce, for example, has different retirement patterns than, say, the clerical workforce who work for the Social Security Administration. But OPM projections can't break out the data for a specific agency or occupation (although they can segment the analysis by length of service, gender, retirement system and PATCO category, i.e., Professional, Administrative, Technical, Clerical, Other). Thus, the projections are based on a different population than the one they are forecasting for.
- ♦ A second major limitation is the assumption underlying OPM's projections: that the past is a good predictor of the future. There are any number of reasons why that might not be so. For example, projections for FY02-06 are based on data from F99-01—a period when the economy was very different than the current one. Employees today are likely to behave more conservatively than in the past, when the stock market was flying high and individual savings were growing handsomely each year. And then there are organizational developments that may influence retirement decisions. The merging of 22 agencies to create a new Department of Homeland Security is one example. Who knows how that will affect the age when employees take retirement? Will some leave sooner because they don't want to be part of the new organization? Will others stick around longer, to help smooth the transition, perhaps, or simply out of curiosity to see how things work out?

Mandating that agencies do workforce analysis and planning is a beginning, but the federal government has a long way to go to improve its workforce forecasting capability. (By contrast, the Army profile presented in later the report describes the state-of-the-art in retirement forecasting, which includes micro-analyses for extremely specific employee groups and attributes.)

OMB-mandated workforce planning is another, still relatively crude process. It's impossible for OPM to project future workforce needs, government-wide, without knowing how each agency's mission may change in the future, and with it, the skills and competencies it will need. That's information the agencies have, but not OPM. Moreover, there is no common set of competencies that federal agencies have agreed on, or even common definitions of what such competencies entail. Nor is there any federal system to track who has them. Thus, while the federal government has made a commitment to address the challenges of an aging workforce, it has a long way to go simply to grasp the scope of the problem, let alone to implement an effective macro-level response.

But that's just today. Innovative approaches, such as those described in the profiles of the United States Army, the Air Force Materiel Command, and the Government Accounting Office, provide useful models for what individual agencies can do. At a more global level, the Army's workforce forecasting tool is now being evaluated for possible adoption throughout the federal government. OMB and OPM have developed a scorecard to rate agencies' effectiveness in strategically managing human capital. And the recently passed Homeland Security bill mandates that agencies appoint a chief human capital officer to oversee workforce planning. According to *Government Executive* magazine, "human resources executives at federal agencies have begun an unprecedented effort to analyze employment statistics, forecast attrition rates, and identify gaps in skills and recruitment needs to better match their workforces with their agencies' missions."

(Friel, Brian, "Reality Check," May 15, 2002. Available at <http://www.ovexec.com/features/fpp/fpp02/s3.htm>, this article offers an excellent overview of these measures, with links to related articles.)

Clearly, there's momentum building to upgrade the federal government's ability to do pan-government workforce analysis and planning. At present, however, it's at the agency-level where we found the leading-edge—a small number of organizations with a better-than-average grip on the issues who are preparing for the extraordinary employee exodus that lies ahead.

State government

How do retirement projections for state workers compare to those for federal employees? CSG and NASPE's 2002 survey found the following:

- ♦ Within the next five years, a growing percentage of state employees will become eligible for retirement. Topping the list with the highest projections of retirement-eligible employees are California (49%), Virginia (45%), Oklahoma (33%), and New Jersey (32%). The states with the smallest percentage of retirement-eligible workers in the next five years are Utah (7.5%), Oregon (9%), and South Dakota (9.6%).
- ♦ Exacerbating the approaching retirement wave is the fact that many states are also faced with shrinking budgets. Some 27 states reported they have imposed hiring limitations or an outright freeze. More than half the states have a vacancy rate above the national average of 11% for state government positions. Deferred hiring is likely to hamper states' ability to prepare for coming retirements by building up the talent pipeline.

(Source: Carroll, James B. and Moss, David A., "State Government Worker Shortage: The Impending Crisis," *Trends Alert*, Council of State Governments, September 2002.)

Local Government

To our knowledge, there is no comprehensive data on retirement eligibility among local-government employees. However, the National Association of Counties (NACo) is planning to do an in-depth study in 2003 of the aging county workforce and the impacts of an aging population on county government's service delivery, including healthcare.

So How Bad Is It?

What conclusions can we draw from these data? We offer four, based on the preceding data and on our interviews with jurisdictions, public-sector human resource associations, and others familiar with the current state of workforce planning in the government sector:

1. **The aging workforce** At all levels, the government-sector workforce is older than its private-sector counterpart. It also has proportionately fewer young workers, a fact that increases the seriousness of the workforce challenges ahead. No one we interviewed dismissed the aging government workforce as an issue whose importance has been exaggerated. Many regretted the short-sighted human resource policies of the past that, in effect, created the problem. Such policies or programs include early retirement incentives, reductions in force, fewer opportunities for training and development, and other human resource practices that made government employment less desirable than private-sector jobs.
2. **Retirement eligibility** A significant percentage of employees at all levels of government is approaching retirement eligibility.

3. **Retirement forecasts** It is difficult to forecast with confidence exactly when these employees will retire.
 - ♦ In part, that's because so many factors can influence retirement decisions. For example:

Environmental factors (the economy, changes in the political leadership, momentous and unforeseen events such as September 11th)

Organizational factors (changes in the jurisdiction's retirement policies, such as lowering the retirement age, offering early retirement incentives, permitting phased retirement; changes in the jurisdiction's mission, structure, or needed competencies and skills)

Occupational factors (For example, employees may choose to retire sooner in occupations such as nursing, where there are ample opportunities for post-retirement employment in the private sector. Those in physically demanding jobs may retire sooner than those whose work is sedentary.)

Personal factors (A multitude of person-specific factors may influence retirement decisions. These are difficult for the organization to predict—or even know about—and also difficult for it to control. For example, one federal workforce analyst we interviewed remarked that the best predictors of when an employee will retire are two factors: the spouse's retirement plan and how many kids they have in college.)
 - ♦ A second factor affecting the accuracy of retirement forecasts is the **quality of data available and the analysts' tools and skills**. We found great variability in all of these. Some jurisdictions don't seem to systematically monitor employees' age and retirement eligibility. Others may have done so in the past, but it is not an ongoing practice. In some cases, their retirement projections hadn't been revised for a year or more—a sure sign that workforce planning is an on-again off-again pursuit.

The explosion of strategic human capital scorecards, workforce planning mandates, and human capital accountabilities is evidence that the federal government is taking its officially decreed “human capital crisis” seriously. However, while we found pockets of expertise and innovation, we must conclude that, at this moment, workforce analytics and forecasting are still at a fairly rudimentary stage at the pan-federal-government level.

At the state and local level, selected jurisdictions have developed enough sophistication to do very credible forecasts specific to departments, occupations, and locales.

4. **It's not just numbers** To answer our first research question in regard to the aging government workforce and the coming wave of retirements—i.e., “How bad is it?”—it's necessary to consider *both* the workforce statistics and what the jurisdiction is, or isn't, doing about them. For a jurisdiction with a very large number of projected retirements and a well developed workforce-planning process, the problem may be less serious or threatening than for a jurisdiction where the numbers are less daunting but there's no coordinated workforce-planning effort.

An example may help clarify this point. According to the Rockefeller Institute's analysis, the state-government workforce is younger than the federal one. That would seem to suggest that the retirement wave will probably hit state government later, making it a less immediate threat.

But it would be a mistake to draw such a conclusion, for two reasons. The first is that retirement-eligibility criteria vary significantly from state to state, so the relationship between age and retirement is inconsistent. Some states are offering early-retirement incentives. At

least one other (Pennsylvania) is considering lowering the years-of-service criterion from 35 to 30 years. So age, itself, is not a perfect predictor of the timing and scope of the retirement wave affecting state government.

The second reason is that, unlike the federal government, which has made human capital management a strategic priority, there is no comparable commitment across the state government. Instead, we found many states that have done some sort of workforce planning exercise but a smaller number in which workforce planning is a regular, ongoing process. A few states simply skipped the demographic questions on the CSG/NASPE survey—that is, the average age of your employees and the percentage that will become eligible for retirement within the next five years.

Thus, in answer to our question regarding the scope of the human resource challenges posed by the aging government workforce, we arrive at a more complicated answer than we initially sought. The data presented here allow us to provide a quantitative answer, while acknowledging that the numbers for some jurisdictions are probably not reliable. But to that answer we must add another: that the scope or seriousness of these challenges also depends on how effectively the jurisdiction is responding to them. In other words, workforce statistics, alone, do not answer the question fully.

Our second research question—What are jurisdictions doing to address the human resource challenges posed by an aging workforce?—is one we answer descriptively in Research Findings Part II. There, we present detailed profiles of twelve jurisdictions chosen because they are making significant effort to address those challenges. Each profile provides the age distribution and retirement projections for the jurisdiction's workforce; innovative practices that address the challenges of an aging workforce; and tools, frameworks and lessons learned that the jurisdiction has allowed us to include in our report.



Research Findings Part II: Innovative Solutions

This section presents profiles of twelve jurisdictions selected using the following criteria:

- ♦ The jurisdiction was recommended by one or more of our association partners (IMPA, CSG, NASPE), our sponsor (CPS Human Resource Services), or by other jurisdictions or subject-matter experts as actively addressing the challenges of an aging workforce.
- ♦ In the preliminary phase of the study, we determined that the jurisdiction's approach to meeting the challenges of an aging workforce went beyond the basics—for example, completing a workforce planning exercise—and would contribute innovative solutions and fresh insights to the report.
- ♦ The jurisdiction is continuing to address the aging workforce issue, despite budget cuts, a hiring freeze, or other setbacks.
- ♦ The jurisdiction contributes to our overall balance of local, state, and federal government examples.

The twelve jurisdictions are presented in ascending order, based on the size of their workforce. We chose this order so that readers whose organizations are comparatively small or have relatively limited resources would not be put-off by the large-scale initiatives (such as the Air Force Materiel Command's) and the advanced expertise (such as the Army's approach to workforce analytics and planning) of much bigger jurisdictions.

That is not to say that readers should read only the profiles of jurisdictions whose size is comparable to their own. In fact, there are interesting tactics and useful lessons in every profile. The first, for example, describes a collaborative initiative that enabled 30 small counties in California to overcome recruitment and staffing problems that none of them had been able to solve on their own. Such collaboration could work for *any* organization, provided it can identify potential allies that face similar problems and have a similar needs and similarly limited resources. In other industries that are grappling with an aging workforce—healthcare and energy—we have seen collaborative approaches involving organizations of all sizes, bound together by a common challenge: recruiting, hiring, and retaining staff in hard-to-fill positions. Thus the California social workers profile is not just relevant to other small jurisdictions.

Similarly, the largest jurisdictions in our study—the Air Force Materiel Command (65,000 civilians), Pennsylvania (80,000 employees), and the Army (276,493 civilians)—provide models that would, in some circles, be called “aspirational.” That is, the scope of their aging and retirement challenges may dwarf many other jurisdictions’. And the analytic tools and forecasting models they have developed may be light years beyond what most jurisdictions use. But their experience and insights are universally relevant. Here are workforce analysts and planners who are *passionate* about what they're doing and why they do it. The compound challenges of retirements, recruitment, hiring freezes, budget cuts, legislative policy changes, restructuring, and changing missions and skill-sets seem—for them—to be a kind of high-intensity, hard-ball game that leaves them breathless but triumphant. We find their experiences unexpectedly energizing.

Here, then, are the twelve profiles. They are followed in Part III with practical frameworks and tools for addressing the challenges described in this report.

JURISDICTIONS PROFILED IN THE REPORT

Jurisdiction	Size of Workforce	Retirement Eligibility Projections	Innovative Efforts & Promising Practices
Social services departments of 30 CA counties	964 social workers	Not available	30 small counties collaborated to get additional state funds to staff difficult-to-fill social work jobs by using <ul style="list-style-type: none"> • Expanded recruitment • Online application process • Job analysis to explore new staffing options
Anaheim, CA	2,101	54% managers currently; 64% by 2004	Extensive "Build the Bench" program develops leaders through on- and off-site programs
United States General Accounting Office (GAO)	3,200	38% by 2005	Using flexibilities available to all federal agencies and others granted to GAO, the agency is reshaping its workforce to meet future priorities. Multiple initiatives related to: <ul style="list-style-type: none"> • Recruitment • Retention • Realignment
Henrico County, VA	3,583	38% by 2005	To build the management pipeline and avoid brain drain: <ul style="list-style-type: none"> • Gives managers tools to develop all subordinates • Holds managers accountable for doing so
Minnesota Department of Transportation	5,315	55% managers by 2007	<ul style="list-style-type: none"> • Succession Planning involving all classified managers • Strategic Staffing (workforce planning) focuses on specific skills and capabilities, an approach that facilitates flexible staffing within existing ranks
Maine	12,300	32% by 2007; 50% managers by 2007	<ul style="list-style-type: none"> • Revised law to permit rehiring state retirees • Created Maine Management Service to develop agency leaders, improve selection and succession planning, and reform the civil service system
Tennessee Valley Authority (TVA)	13,000	33% by 2007	To prevent massive brain drain: <ul style="list-style-type: none"> • Asks employees to volunteer estimated date they expect to retire • Identifies jobs at high-risk for knowledge loss through attrition and takes steps to reduce such loss

Jurisdiction	Size of Workforce	Retirement Eligibility Projections	Innovative Efforts & Promising Practices
Phoenix, AZ	14,800	24% of workforce, including 56% of managers, by 2007	<ul style="list-style-type: none"> • Workforce Planning Strategy • Grow-your-own approach to staffing • Insightful analysis of obstacles and detailed action plan for overcoming them
Washington	44,000	23% by 2007	<ul style="list-style-type: none"> • Waged a coordinated campaign to educate agencies re the aging workforce challenge and build their commitment to “aggressive” and continuous workforce planning • Revised state law to allow retirees to return to work for the state • Automated the application process for many key jobs to accelerate time-to-hire • Has begun redesigning personnel system including reforming civil service, authorizing unions to negotiate compensation and benefits, and allowing agencies to contract out
United States Air Force Materiel Command	65,000 civilians	40% eligible for full retirement FY02-07; 55% managers	<ul style="list-style-type: none"> • Massive scope of aging workforce & retirement issues • Rapid development “Work Force (sic) Shaping” campaign • To execute this plan requires funding, authority and policy changes at multiple levels of government
Pennsylvania	80,000	17% now; future eligibility depends on outcome of new legislation	<p><i>Selectively</i> focuses on critical areas:</p> <ul style="list-style-type: none"> • Evaluates age and retirement by occupation • Uses occupation-specific “retirement probability factor” to project retirements • Focuses on hard-to-fill or hard-to-train-for positions • Conducts workforce planning at most appropriate level • Tailors recruitment and retention efforts to specific occupations
United States Army	276,493 civilians	55,000 (20%) FY01-07	<ul style="list-style-type: none"> • To replace retirees and other departures, will make 25,500 new appointments/year FY01-FY07 • Dynamic (vs. static) workforce planning model builds micro- and macro-level scenarios assuming constant or changing environment • Tools can be used by managers at all levels • Just-in-time “inventory-based recruiting”



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